

Message Text

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PAGE 01 THE HA 03636 031847Z
ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 EA-12 FRB-01 INR-10 NEA-10 NSAE-00 ICA-20
OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 STR-07 XMB-04 NSC-05 CTME-00 JUSE-00
/139 W

-----012579 040417Z /23

R 031525Z JUL 78
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 2900
INFO EC COLLECTIVE
USMISSION GENEVA
USMISSION USNATO

UNCLAS THE HAGUE 3636

ALSO FOR USEEC, USOECD, USMTN

E.O. 11652: N/A
TAGS: ECON, PINT, NL/ECRP
SUBJECT: CEPR 0200: GOVERNMENT ANNOUNCES ECONOMIC PLANS AFTER
PARLIAMENT ADJOURNS

REF: THE HAGUE 3470

SUMMARY: ON JUNE 30, AFTER PARLIAMENT HAD ADJOURNED FOR ITS
SUMMER RECESS, VAN AGT SUBMITTED HIS LONG AWAITED ECONOMIC
MEMORANDUM. AS FORECAST IT PROVIDES FOR A 10 BILLION GUILDER
(2.23 GUILDERS EQUAL \$1.00) REDUCTION IN PLANNED INCREASES
IN GOVERNMENT EXPENDITURES DURING 1979 THROUGH 1981 TO PROVIDE
MORE FUNDS AND PROFIT TO PRIVATE SECTOR AS BASIS FOR STIMULATING
INVESTMENT AND CREATING JOBS. IN EFFECT, INCREASES IN PUBLIC
SECTOR SPENDING WOULD BE CUT BY 3 BILLION GUILDERS IN 1979,
6 BILLION GUILDERS IN 1980, AND ONE BILLION GUILDERS IN 1981.
THE CUTS WOULD BE ACHIEVED THROUGH A 6.7 BILLION GUILDER
REDUCTION IN PLANNED SOCIAL SECURITY PAYMENTS AND PUBLIC
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PAGE 02 THE HA 03636 031847Z

EMPLOYEES' SALARIES AS WELL AS A 3.3 BILLION GUILDER REDUCTION
IN PLANNED INCREASES IN EXPENDITURES OF GOVERNMENT MINISTRIES.
GOVERNMENT ALSO ANNOUNCED IT WAS PLANNING FURTHER DEVELOPMENT
OF A BROAD AND RATIONAL INCOMES POLICY, A BILL ON A COLLECTIVE
EXCESS PROFIT SHARING SCHEME (VAD), AND A PLAN TO HELP STIMU-
LATE EXPORTS OF CAPITAL GOODS TO DEVELOPING COUNTRIES.
DEBATE ON MEMORANDUM WILL TAKE PLACE IN LATE AUGUST WHEN PARLIA-

MENT REASSEMBLES. END SUMMARY.

2. VAN AGT NOTED THAT 10 BILLION GUILDER SPENDING CUT INCLUDES THE 4.5 BILLION REDUCTION PROPOSED BY PREVIOUS GOVERNMENT PLUS ADDITIONAL CUTS OF (1) 2.5 BILLION TO STIMULATE ECONOMIC GROWTH BACK TOWARD DESIRED 3.75 PERCENT ANNUAL REAL GROWTH RATE RATHER THAN CURRENTLY PROJECTED 3.0 PERCENT AND (2) 3 BILLION GULDERS TO IMPROVE ECONOMIC PROSPECTS AND PRIVATE INVESTMENT BY SLOWING DOWN INCREASES IN TAXES AND SOCIAL SECURITY CONTRIBUTIONS. IT IS HOPED THAT THESE MEASURES COMBINED WITH A NET BOOST OF ABOUT 5 BILLION GULDERS UNDER THE ALREADY PASSED 13 BILLION GUILDER INVESTMENT ACCOUNT (WIR SEE THE HAGUE 2911), WILL PROVIDE A STRONG ENOUGH INCENTIVE TO PRIVATE INVESTMENT TO CUT SEASONALLY ADJUSTED UNEMPLOYMENT FROM CURRENT LEVEL OF 204,000 TO ONLY 150,000 AT END OF 1981 OR 100,000 LESS THAN OTHERWISE PROJECTED.

3. GOVERNMENT TARGETS DURING MEDIUM TERM INCLUDE CUTTING BUDGET DEFICITS TO FOUR TO FIVE PERCENT OF NET NATIONAL INCOME SINCE IT IS BELIEVED THAT GON CAN BORROW NO MORE THAN 4.5 PERCENT ON CAPITAL MARKETS WITHOUT PUSHING OUT OTHER BORROWERS. IT IS ALSO HOPED TO REDUCE ANNUAL INCREASE IN WAGES TO AROUND FOUR PERCENT, COMPARED WITH ESTIMATED SEVEN PERCENT IN 1978, AND TO LOWER INFLATION RATE TO BETWEEN TWO TO THREE PERCENT COMPARED TO CURRENT RATE OF ABOUT 3.5 PERCENT. THE MODAL WORKER'S REAL INCOME (ABOUT 30,000 GULDERS IN 1978) IS NOT UNCLASSIFIED

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PAGE 03 THE HA 03636 031847Z

TO BE AFFECTED AND GOVERNMENT WILL SEEK TO MAINTAIN PURCHASING POWER OF MEDIUM INCOMES (30,000 TO 40,000 GULDERS ANNUALLY).

4. DETAILED MEASURES FOR 1979 ARE TO BE ANNOUNCED IN BUDGET PRESENTATION IN SEPTEMBER WHICH IS EXPECTED TO INCLUDE CUTS OF TWO TO THREE BILLION GULDERS IN TAXES AND SOCIAL SECURITY CONTRIBUTIONS. THE 1979 DEFENSE BUDGET IS TO BE INCREASED BY A TOTAL OF ABOUT 66 MILLION GULDERS REFLECTING THE THREE PERCENT REAL INCREASE ANNUALLY TO MEET NATO COMMITMENTS AND DESPITE CUTS OF 75 MILLION GULDERS IN OTHER PLANNED DEFENSE PROGRAMS. THE HEAVIEST MINISTERIAL BUDGET CUTS (OVER 200 MILLION GULDERS EACH) IN 1979 WILL BE ABSORBED BY EDUCATION AND TRANSPORT AND WATERWAYS.

5. COMMENT: VAN AGT GOVERNMENT BY MANAGING TO POSTPONE INITIAL DEBATE ON ECONOMIC PLANS MAY HAVE TAKEN SOME OF THE STING OUT OF ITS AUSTERITY MEASURES. HOWEVER, FORMER PRIME MINISTER DEN UYL HAS BEEN QUICK TO QUESTION GOVERNMENT'S PROPOSALS BECAUSE THEY WOULD UNFAIRLY HIT LOWER INCOME GROUPS SUCH AS SOCIAL SECURITY RECIPIENTS. CIVIL SERVANTS AND THEIR UNIONS CAN BE EXPECTED TO CONTINUE TO DEMONSTRATE THEIR UNHAPPINESS OVER PROPOSED CUTS IN SALARIES. WITH ONLY A SHORT

TIME BETWEEN RESUMPTION OF PARLIAMENT IN LATE AUGUST AND
PRESENTATION OF 1979 BUDGET IN SEPTEMBER, THE FOCUS MAY
QUICKLY SHIFT AWAY FROM LONGER RANGE PLANS AND CONCENTRATE
ON MORE SPECIFIC BUDGET ALLOCATIONS FOR 1979.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CERP 0200, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978THEHA03636
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780274-1182
Format: TEL
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780798/aaaadety.tel
Line Count: 121
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 96c17c7b-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 THE HAGUE 3470
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2123362
Secure: OPEN
Status: NATIVE
Subject: CEPR 0200: GOVERNMENT ANNOUNCES ECONOMIC PLANS AFTER PARLIAMENT ADJOURNS
TAGS: ECON, PINT, ECRP, NL
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/96c17c7b-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014